

CITY OF GRINNELL, IOWA

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2013

CITY OF GRINNELL, IOWA
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CITY OF GRINNELL, IOWA
OFFICIALS
June 30, 2013

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gordon Canfield	Mayor	January, 2014
James White	Council Member	January, 2014
Oliva Wright	Council Member	January, 2014
Jo Wray	Council Member	January, 2016
Rachel Bly	Council Member	January, 2014
Sondra Burnell	Council Member	January, 2016
Byron Hueftle-Worley	Council Member	January, 2016
Russell Behrens	City Manager	Appointed
P. Kay Cmelik	City Clerk/Finance Director	Appointed
William Sueppel	City Attorney	Appointed

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grinnell, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

City of Grinnell's Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

To the Honorable Mayor and
Members of the City Council

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grinnell as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Supplementary and Other Information

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Grinnell's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the five years ended June 30, 2012 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the three years ended June 30, 2007 (none of which are presented herein), were audited by other auditors whose report expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements.

The supplementary information included in page 1 and pages 24 through 30, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information, on pages 5 through 5e and 22 through 23 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

To the Honorable Mayor and
Members of the City Council

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 26, 2013 on our consideration of the City of Grinnell's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Grinnell's internal control over financial reporting and compliance.

Gmewold, Ben, Kyhn & W.P. C.

Atlantic, Iowa
December 26, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Grinnell has prepared the Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the Government-wide Financial Statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the non-major governmental funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, solid waste, and storm sewer activities. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These funds focus on how money flows into and out of the funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, solid waste funds and storm sewers. The water, sewer and solid waste funds are considered to be major enterprise funds of the city.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's balance for governmental activities increased approximately \$756,000 from a year ago. The analysis that follows focuses on the cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2013	2012
Receipts		
Program Receipts		
Charges for Service	\$745	\$776
Operating Grants	1,186	1,083
Capital Grants	1,251	4,259
General Receipts		
TIF	1,725	1,404
Property Tax	3,766	3,786
Debt Proceeds	--	2,765
Other General Receipts	2,189	1,674
Total Receipts	10,862	15,747
Disbursements		
Public Safety	1,721	1,984
Public Works	1,277	1,261
Health and Social Services	2	1
Culture and Recreation	1,081	1,055
Community and Economic Development	1,232	811
General Government	1,365	1,193
Debt Service	1,828	4,405
Capital projects	1,801	4,934
Total Disbursements	10,307	15,644
Change in Cash Basis Net Position Before Transfers	555	103
Transfers, net	201	290
Change in Cash Basis Net Position	756	393
Cash Basis Net Position Beginning of Year	5,620	5,227
Cash Basis Net Position End of Year	\$6,376	\$5,620

The City's total receipts for governmental activities decreased 31.0% or approximately \$4,885,000. The total cost of all programs and services decreased by approximately 34.1% or approximately \$5,337,000, due to a decrease in debt service and capital project expenditures.

The cost of all governmental activities this year was approximately \$10,307,000 compared to approximately \$15,644,000 last year.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2013	2012
Receipts		
Program Receipts		
Charges for Service		
Water	\$1,311	\$1,019
Sewer	1,485	1,463
Solid waste	1,060	1,081
Storm sewer	266	254
	4,122	3,817
General Receipts		
Other General Receipts	153	104
Total Receipts	4,275	3,921
Disbursements		
Water	1,195	1,115
Sewer	1,205	1,243
Solid waste	883	1,026
Storm sewer	157	115
Total Disbursements	3,440	3,499
Change in Cash Basis Net Position Before Transfers	835	422
Transfers, net	(201)	(290)
Change in Cash Basis Net Position	634	132
Cash Basis Net Position - Beginning of Year	1,869	1,737
Cash Basis Net Position - End of Year	\$2,503	\$1,869

Total business type activities receipts for the fiscal year were approximately \$4,275,000 compared to approximately \$3,921,000 last year. The cash balance increased by approximately 33.9% or \$634,000 from the prior year. Total disbursements and transfers for the fiscal year decreased by approximately 3.9% to a total of approximately \$3,641,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Grinnell completed the year, its governmental funds reported a combined fund balance of \$6,375,935, an increase of \$755,519 from last year's total of \$5,620,416. The following are changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$142,638 from the prior year to \$1,265,190.
- The Equipment Replacement Fund cash balance increased by \$227,569 to \$2,016,513.
- The Urban Renewal Tax Increment Fund cash balance increased \$130,707 to \$270,447.
- The Employee Benefit Fund cash balance increased \$175,806 to \$196,631.
- The Debt Service Fund cash balance increased \$12,649 to \$141,367.
- The Capital Projects Fund cash balance increased by \$227,912 to \$886,488.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$186,152 to \$286,799.
- The Sewer Fund cash balance increased by \$132,657 to \$1,339,291.
- The Solid Waste cash balance increased by \$155,411 to \$211,437.
- The Storm Sewer cash balance increased by \$159,628 to \$665,639.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once, which increased budgeted disbursements by \$1,017,074. The budget increase was primarily for disbursements in the public works, community and economic development, general government, and business type activities functions.

The City's total receipts and disbursements were less than budgeted by \$2,291,562 and \$3,874,224, respectively. The City's disbursements were less than amounts budgeted for all of the functions.

DEBT ADMINISTRATION

At June 30, 2013, the City had \$15,235,073 in bonds and other long-term debt, compared to \$17,041,834 last year as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2013	2012
General Obligation Notes and Bonds	\$14,365	\$15,647
Revenue Notes	870	1,395
Total	\$15,235	\$17,042

The City continues to carry a general obligation bond rating of A3 assigned by national rating agencies to the City's debt since 1995. The Constitution of the State of Iowa Limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$14,365,073 is below its constitutional debt limit by approximately \$10,259,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Grinnell elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates, and fees that will be charged for various City activities.

The Local Options Sales and Service Tax has allowed Grinnell to complete and pursue some large capital projects i.e. Drake Community Library Project, Public Safety Building Project and Grinnell Mutual Family Aquatic Center Project. These revenues allow us to abate the General Obligation Bonds Principal and Interest rather than raising the debt service levy. We will also see the Tax Increment Financing dollars being utilized to assist with the continuation of the Central Business District phases of development; TIF Rebate Agreements and future economic development projects.

The Sewer rates will likely see some increases over the next few years due to the required improvements to our wastewater treatment plant. The new Storm Water Utility will provide for future capital projects to daily operations which lessen the burden to the sanitary sewer fund as well as the general fund.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. Inflation has been modest here due in part to the slowing of the residential housing market and increases in energy prices.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact P. Kay Cmelik, City Clerk, Grinnell, Iowa.

CITY OF GRINNELL, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION

As of and for the year ended June 30, 2013

		Program Receipts	
		Charges for	Operating Grants, Contributions, and Restricted Interest
	<u>Disbursements</u>	<u>Service</u>	
Functions/Programs:			
Governmental activities:			
Public safety	\$ 1,721,070	\$ 61,845	\$ 25,712
Public works	1,276,745	72,451	895,807
Health and social services	1,620	--	--
Culture and recreation	1,080,732	441,860	46,941
Community and economic development	1,232,641	141,032	217,072
General government	1,365,377	27,770	--
Debt service	1,827,961	--	--
Capital projects	1,800,931	--	--
Total governmental activities	<u>10,307,077</u>	<u>744,958</u>	<u>1,185,532</u>
Business type activities:			
Water	1,195,511	1,311,126	--
Sewer	1,204,970	1,485,517	--
Solid waste	883,148	1,059,559	--
Storm sewer	156,614	266,446	--
Total business type activities	<u>3,440,243</u>	<u>4,122,648</u>	<u>--</u>
Total	<u>\$ 13,747,320</u>	<u>\$ 4,867,606</u>	<u>\$ 1,185,532</u>
General Receipts and Transfers:			
Property tax levied for:			
General purposes			
Debt service			
Tax increment financing			
Hotel motel tax			
Local option sales tax			
Unrestricted interest on investments			
Miscellaneous			
Transfers			
Total general receipts and transfers			
Change in cash basis net position			
Cash basis net position beginning of year			
Cash basis net position end of year			

(continued next page)

Program Receipts Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Governmental Activities	Business Type Activities	Total
\$ --	\$ (1,633,513)	\$ --	\$ (1,633,513)
--	(308,487)	--	(308,487)
--	(1,620)	--	(1,620)
--	(591,931)	--	(591,931)
--	(874,537)	--	(874,537)
--	(1,337,607)	--	(1,337,607)
--	(1,827,961)	--	(1,827,961)
<u>1,250,936</u>	<u>(549,995)</u>	<u>--</u>	<u>(549,995)</u>
<u>1,250,936</u>	<u>(7,125,651)</u>	<u>--</u>	<u>(7,125,651)</u>
--	--	115,615	115,615
--	--	280,547	280,547
--	--	176,411	176,411
<u>--</u>	<u>--</u>	<u>109,832</u>	<u>109,832</u>
<u>--</u>	<u>--</u>	<u>682,405</u>	<u>682,405</u>
<u>\$ 1,250,936</u>	<u>(7,125,651)</u>	<u>682,405</u>	<u>(6,443,246)</u>
	3,510,099	--	3,510,099
	256,147	--	256,147
	1,725,321	--	1,725,321
	299,187	--	299,187
	822,247	--	822,247
	66,993	23,996	90,989
	999,976	128,647	1,128,623
	<u>201,200</u>	<u>(201,200)</u>	<u>--</u>
	<u>7,881,170</u>	<u>(48,557)</u>	<u>7,832,613</u>
	755,519	633,848	1,389,367
	<u>5,620,416</u>	<u>1,869,318</u>	<u>7,489,734</u>
	<u>\$ 6,375,935</u>	<u>\$ 2,503,166</u>	<u>\$ 8,879,101</u>

CITY OF GRINNELL, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION - Continued

As of and for the year ended June 30, 2013

		<u>Program Receipts</u>
	<u>Disbursements</u>	<u>Charges for Service</u>
		<u>Operating Grants, Contributions, and Restricted Interest</u>
Cash Basis Net Position		
Restricted:		
Nonexpendable:		
Cemetery perpetual care		
Expendable:		
Debt service		
Capital projects		
Urban renewal purposes		
Streets		
Equipment		
Other purposes		
Unrestricted		
Total cash basis net position		

The accompanying notes are an integral part of these statements.

Program Receipts Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Governmental Activities	Business Type Activities	Total
	\$ 504,612	\$ --	\$ 504,612
	141,367	499,539	640,906
	886,488	--	886,488
	270,447	--	270,447
	507,657	--	507,657
	2,016,513	--	2,016,513
	783,661	--	783,661
	<u>1,265,190</u>	<u>2,003,627</u>	<u>3,268,817</u>
	<u>\$ 6,375,935</u>	<u>\$ 2,503,166</u>	<u>\$ 8,879,101</u>

CITY OF GRINNELL, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2013

	<u>General</u>	<u>Special Revenue</u> <u>Equipment</u> <u>Replacement</u>	<u>Urban Renewal</u> <u>Tax Increment</u>
Receipts:			
Property tax	\$ 2,188,071	\$ --	\$ --
Tax increment financing	--	--	1,725,321
Other city tax	39,669	--	--
Licenses and permits	70,729	--	--
Use of money and property	173,238	16,427	3,175
Intergovernmental	312,558	2,000	--
Charges for service	441,162	--	--
Miscellaneous	418,274	6	--
Total receipts	<u>3,643,701</u>	<u>18,433</u>	<u>1,728,496</u>
Disbursements:			
Operating:			
Public safety	1,649,862	--	--
Public works	225,684	225,564	--
Health and social services	1,620	--	--
Culture and recreation	1,063,361	--	--
Community and economic development	464,209	--	270,881
General government	379,304	--	--
Debt service	--	--	--
Capital projects	--	--	--
Total disbursements	<u>3,784,040</u>	<u>225,564</u>	<u>270,881</u>
Excess (deficiency) of receipts over (under) disbursements	(140,339)	(207,131)	1,457,615
Other financing sources (uses):			
Operating transfers in	282,977	434,700	--
Operating transfers out	--	--	(1,326,908)
Total other financing sources (uses)	<u>282,977</u>	<u>434,700</u>	<u>(1,326,908)</u>
Net change in cash balances	142,638	227,569	130,707
Cash balances beginning of year	<u>1,122,552</u>	<u>1,788,944</u>	<u>139,740</u>
Cash balances end of year	<u>\$ 1,265,190</u>	<u>\$ 2,016,513</u>	<u>\$ 270,447</u>

(continued next page)

Exhibit B

<u>Special Revenue</u>				
<u>Employee Benefit</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
\$ 1,259,428	\$ 252,418	\$ --	\$ --	\$ 3,699,917
--	--	--	--	1,725,321
22,931	3,729	--	1,121,434	1,187,763
--	--	--	--	70,729
1,223	8,086	5,521	5,695	213,365
--	--	595,489	883,270	1,793,317
--	--	--	--	441,162
--	--	1,273,670	37,872	1,729,822
<u>1,283,582</u>	<u>264,233</u>	<u>1,874,680</u>	<u>2,048,271</u>	<u>10,861,396</u>
64,793	--	--	6,415	1,721,070
--	--	--	825,497	1,276,745
--	--	--	--	1,620
--	--	--	17,371	1,080,732
--	--	--	497,551	1,232,641
973,506	--	--	12,567	1,365,377
--	1,827,961	--	--	1,827,961
--	--	1,800,931	--	1,800,931
<u>1,038,299</u>	<u>1,827,961</u>	<u>1,800,931</u>	<u>1,359,401</u>	<u>10,307,077</u>
245,283	(1,563,728)	73,749	688,870	554,319
--	1,813,081	618,524	439,861	3,589,143
(69,477)	(236,704)	(464,361)	(1,290,493)	(3,387,943)
<u>(69,477)</u>	<u>1,576,377</u>	<u>154,163</u>	<u>(850,632)</u>	<u>201,200</u>
175,806	12,649	227,912	(161,762)	755,519
<u>20,825</u>	<u>128,718</u>	<u>658,576</u>	<u>1,761,061</u>	<u>5,620,416</u>
<u>\$ 196,631</u>	<u>\$ 141,367</u>	<u>\$ 886,488</u>	<u>\$ 1,599,299</u>	<u>\$ 6,375,935</u>

CITY OF GRINNELL, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS - Continued

As of and for the year ended June 30, 2013

	<u>General</u>	<u>Special Revenue</u> <u>Equipment</u> <u>Replacement</u>	<u>Urban Renewal</u> <u>Tax Increment</u>
Cash Basis Fund Balances			
Nonspendable - Cemetery perpetual care	\$ --	\$ --	\$ --
Restricted for:			
Debt service	--	--	--
Capital projects	--	--	--
Urban renewal purpose	--	--	270,447
Streets	--	--	--
Equipment	--	2,016,513	--
Other purposes	--	--	--
Unassigned	<u>1,265,190</u>	<u>--</u>	<u>--</u>
Total cash basis fund balances	<u>\$ 1,265,190</u>	<u>\$ 2,016,513</u>	<u>\$ 270,447</u>

The accompanying notes are an integral part of these statements.

Exhibit B

<u>Special Revenue Employee Benefit</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
\$ --	\$ --	\$ --	\$ 504,612	\$ 504,612
--	141,367	--	--	141,367
--	--	886,488	--	886,488
--	--	--	--	270,447
--	--	--	507,657	507,657
--	--	--	--	2,016,513
196,631	--	--	587,030	783,661
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,265,190</u>
<u>\$ 196,631</u>	<u>\$ 141,367</u>	<u>\$ 886,488</u>	<u>\$ 1,599,299</u>	<u>\$ 6,375,935</u>

CITY OF GRINNELL, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the year ended June 30, 2013

	<u>Enterprise</u>	
	<u>Water</u>	<u>Sewer</u>
Operating receipts:		
Use of money and property	\$ --	\$ 5,985
Charges for service	<u>1,311,126</u>	<u>1,479,532</u>
Total operating receipts	1,311,126	1,485,517
Operating disbursements:		
Business type activities	<u>1,086,061</u>	<u>749,720</u>
Total operating disbursements	1,086,061	749,720
Excess (deficiency) of operating receipts over (under) operating disbursements	225,065	735,797
Non-operating receipts (disbursements):		
Interest on investments	2,645	14,596
Miscellaneous	80,892	514
Debt service	<u>(109,450)</u>	<u>(455,250)</u>
Total non-operating receipts (disbursements)	<u>(25,913)</u>	<u>(440,140)</u>
Excess (deficiency) of receipts over (under) disbursements	199,152	295,657
Operating transfers out	<u>(13,000)</u>	<u>(163,000)</u>
Total operating transfers in (out), net	<u>(13,000)</u>	<u>(163,000)</u>
Net change in cash balances	186,152	132,657
Cash balances beginning of year	<u>100,647</u>	<u>1,206,634</u>
Cash balances end of year	<u>\$ 286,799</u>	<u>\$ 1,339,291</u>
Cash Basis Fund Balances		
Restricted for debt service	\$ 58,750	\$ 440,789
Unrestricted	<u>228,049</u>	<u>898,502</u>
Total cash basis fund balances	<u>\$ 286,799</u>	<u>\$ 1,339,291</u>

The accompanying notes are an integral part of these statements.

Enterprise		
Solid Waste	Storm Sewer	Total
\$ --	\$ --	\$ 5,985
<u>1,059,559</u>	<u>266,446</u>	<u>4,116,663</u>
1,059,559	266,446	4,122,648
 883,148	 156,614	 2,875,543
<u>883,148</u>	<u>156,614</u>	<u>2,875,543</u>
 176,411	 109,832	 1,247,105
 959	 5,796	 23,996
3,241	44,000	128,647
<u>--</u>	<u>--</u>	<u>(564,700)</u>
 4,200	 49,796	 (412,057)
 180,611	 159,628	 835,048
<u>(25,200)</u>	<u>--</u>	<u>(201,200)</u>
<u>(25,200)</u>	<u>--</u>	<u>(201,200)</u>
 155,411	 159,628	 633,848
<u>56,026</u>	<u>506,011</u>	<u>1,869,318</u>
<u>\$ 211,437</u>	<u>\$ 665,639</u>	<u>\$ 2,503,166</u>
 \$ --	 \$ --	 \$ 499,539
<u>211,437</u>	<u>665,639</u>	<u>2,003,627</u>
<u>\$ 211,437</u>	<u>\$ 665,639</u>	<u>\$ 2,503,166</u>

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Grinnell, Iowa is a political subdivision of the State of Iowa located in Poweshiek County. It was first incorporated in 1865 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, storm sewer, and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Grinnell has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City of Grinnell has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City, but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Poweshiek County Assessor's Conference Board, Poweshiek County Emergency Management Commission, and the Poweshiek County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements

The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and remaining proprietary funds are aggregated and reported as nonmajor governmental funds or nonmajor proprietary funds, respectively.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Equipment Replacement Fund is used to account for purchase and rental of equipment.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Employee Benefits Fund is used to account for the payment of payroll taxes and other employee benefits.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for the acquisition and construction of capital improvements.

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The City reports the following major proprietary funds:

Enterprise:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Solid Waste Fund accounts for the operation of the City's residential and commercial waste collection, composting and recycling.

The Storm Sewer Fund accounts for the operation of the City's storm sewer system.

C. Measurement Focus and Basis of Accounting

The City of Grinnell maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

NOTE 2 - CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City had no investments with credit risk.

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 3 - BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation notes and bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes & Bonds		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 1,357,526	\$ 441,608	\$ 540,000	\$ 25,012	\$ 1,897,526	\$ 466,620
2015	1,373,340	413,768	330,000	9,900	1,703,340	423,668
2016	1,449,207	382,086	--	--	1,449,207	382,086
2017	1,510,000	350,553	--	--	1,510,000	350,553
2018	1,535,000	315,733	--	--	1,535,000	315,733
2019 - 2023	3,605,000	1,114,778	--	--	3,605,000	1,114,778
2024 - 2028	3,355,000	390,411	--	--	3,355,000	390,411
2029	180,000	8,010	--	--	180,000	8,010
	<u>\$ 14,365,073</u>	<u>\$ 3,416,947</u>	<u>\$ 870,000</u>	<u>\$ 34,912</u>	<u>\$ 15,235,073</u>	<u>\$ 3,451,859</u>

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,210,000 in sewer revenue capital loan notes issued in July, 2009. Proceeds from the notes provided financing for the refunding of the City's 2003 Sewer Refunding Capital Loan Notes and fund improvements. The notes are payable solely from sewer customer net receipts and are payable through 2015. Annual principal and interest payments on the notes are expected to require less than 62 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$680,162. For the current year, principal and interest paid and total customer net receipts were approximately \$455,300 and \$735,800, respectively.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$500,000 in water revenue capital loan notes issued in July, 2009. Proceeds from the notes provided financing for water improvements. The notes are payable solely from water customer net receipts and are payable through 2015. Annual principal and interest payments on the notes are expected to require less than 49 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$224,750. For the current year, principal and interest paid and total customer net receipts were approximately \$109,500 and \$225,100, respectively.

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 3 - BONDS AND NOTES PAYABLE - Continued

The resolutions providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate sewer and water revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Sufficient monthly transfers shall be made to sewer and water revenue note reserve accounts within the Enterprise Funds until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for principal and interest on the notes when insufficient money is available in the sinking accounts.
- (d) Additional monthly transfers of \$2,000 to a sewer revenue note improvement account within the Enterprise Fund shall be made until specific minimum balances have been accumulated. This account is restricted for the purpose of paying for principal and interest on the notes when insufficient money is available in the sinking and reserve accounts, and available for extraordinary expenses or repairs, capital improvements and extensions to the utility.

Defeasance of Debt

In December, 2011, the City issued \$2,765,000 of 2011 Series General Obligation Urban Renewal Refunding Bonds with an average interest rate of 0.98% to advance refund \$2,675,000 of Series 2007 Urban Renewal Bonds with varying interest rates ranging from 3.70% to 3.85%. The proceeds from the bonds were deposited with an escrow agent to provide for future debt service payments on the Series 2007 Urban Renewal Bonds due after June 1, 2013. The 2007 Urban Renewal Bonds were called on June 1, 2013 and the escrowed funds were used to complete all payments.

NOTE 4 - PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 4 - PENSION AND RETIREMENT BENEFITS - Continued

Most regular plan members are required to contribute 5.78% (5.95% effective July 1, 2013) of their annual covered salary and the City is required to contribute 8.67% (8.93% effective July 1, 2013) of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were approximately \$185,000, \$169,000, and \$143,000, respectively, equal to the required contribution for each year.

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, Iowa 50266.

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, can not be less than 17.0% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2013, 2012, and 2011 were approximately \$260,300, \$253,800, and \$189,200, respectively, which met the required minimum contribution for each year.

NOTE 5 - COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time, and sick leave payable to employees at June 30, 2013, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation and Comp Time	\$ 76,000
Sick Leave	<u>148,000</u>
Total	<u>\$ 224,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2013.

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 6 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Hotel Motel Tax	\$ 37,500
	Employee Benefit	69,477
	Local Option Sales Tax	100,000
	Urban Renewal Tax Increment	50,000
	Enterprise:	
	Water	13,000
	Sewer	13,000
		<u>282,977</u>
Special Revenue:	Special Revenue:	
Hotel Motel Tax	Urban Renewal Tax Increment	10,000
Special Revenue:		
Local Option Sales Tax	Capital Projects	429,861
Special Revenue:		
Equipment Replacement	Special Revenue:	
	Urban Renewal Tax Increment	100,000
	Hotel Motel Tax	75,000
	Road Use	50,000
	Capital Projects	34,500
	Enterprise:	
	Sewer	150,000
	Solid Waste	25,200
		<u>434,700</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	982,993
	Urban Renewal Tax Increment	830,088
		<u>1,813,081</u>
Capital Projects	Special Revenue:	
	Hotel Motel Tax	45,000
	Urban Renewal Tax Increment	336,820
	Debt Service	236,704
		<u>618,524</u>
		<u>\$ 3,589,143</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 7 - INDUSTRIAL DEVELOPMENT REVENUE BONDS

The City has issued a total of \$10.8 million of Industrial Development Revenue Bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$6.15 million is outstanding at June 30, 2013. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

NOTE 8 - RISK MANAGEMENT

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August, 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300 percent of total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2013 were approximately \$169,000.

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 8 - RISK MANAGEMENT - Continued

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2013 settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by the amount of capital distributions previously received by the withdrawing member and an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with airport liability, construction risk, volunteer coverage, workers' compensation, and employee blanket bond. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF GRINNELL, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: The City operates a single-employer health benefit plan which provides medical benefits for employees and retirees. There are 55 active and 1 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical benefits are provided through a fully-insured plan with a commercial insurance carrier. Retirees under age 65 pay the same premium for the medical benefits as active employees.

Funding Policy: The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$587 for single coverage and \$1,419 for family coverage. For the year ended June 30, 2013, the City contributed \$599,882 and plan members eligible for benefits contributed \$76,665 to the plan.

NOTE 10 - SUBSEQUENT EVENT

The City has evaluated all subsequent events through December 26, 2013, the date the financial statements were available to be issued.

NOTE 11 - CONSTRUCTION CONTRACTS

The City has entered into several construction contracts that are still in process as of June 30, 2013. The net remaining amount committed to these contracts is approximately \$2,104,000, which will be paid with existing capital project funds, local option sales tax revenue, tax increment financing revenues, grant proceeds, and donations.

* * *

OTHER INFORMATION

CITY OF GRINNELL, IOWA
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION

Year ended June 30, 2013

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Total</u>
Receipts:			
Property tax	\$ 3,699,917	\$ --	\$ 3,699,917
Tax increment financing	1,725,321	--	1,725,321
Other city tax	1,187,763	--	1,187,763
Licenses and permits	70,729	--	70,729
Use of money and property	213,365	29,981	243,346
Intergovernmental	1,793,317	--	1,793,317
Charges for service	441,162	4,116,663	4,557,825
Miscellaneous	<u>1,729,822</u>	<u>128,647</u>	<u>1,858,469</u>
Total receipts	<u>10,861,396</u>	<u>4,275,291</u>	<u>15,136,687</u>
Disbursements:			
Public safety	1,721,070	--	1,721,070
Public works	1,276,745	--	1,276,745
Health and social services	1,620	--	1,620
Culture and recreation	1,080,732	--	1,080,732
Community and economic development	1,232,641	--	1,232,641
General government	1,365,377	--	1,365,377
Debt service	1,827,961	--	1,827,961
Capital projects	1,800,931	--	1,800,931
Business type activities	--	3,440,243	3,440,243
Total disbursements	<u>10,307,077</u>	<u>3,440,243</u>	<u>13,747,320</u>
Excess (deficiency) of receipts over (under) disbursements	554,319	835,048	1,389,367
Other financing sources (uses), net	<u>201,200</u>	<u>(201,200)</u>	<u>--</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	755,519	633,848	1,389,367
Balances beginning of year	<u>5,620,416</u>	<u>1,869,318</u>	<u>7,489,734</u>
Balances end of year	<u>\$ 6,375,935</u>	<u>\$ 2,503,166</u>	<u>\$ 8,879,101</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Total Variance
Original	Final	
\$ 3,690,513	\$ 3,690,513	\$ 9,404
1,661,159	1,661,159	64,162
1,333,940	1,334,155	(146,392)
71,000	71,125	(396)
169,021	221,927	21,419
2,719,430	2,050,220	(256,903)
5,036,219	4,823,121	(265,296)
1,710,355	3,576,029	(1,717,560)
<u>16,391,637</u>	<u>17,428,249</u>	<u>(2,291,562)</u>
2,034,779	2,118,722	397,652
1,611,315	1,770,492	493,747
2,000	2,000	380
1,635,490	1,222,907	142,175
952,753	1,497,051	264,410
1,344,646	1,735,783	370,406
1,828,214	1,828,714	753
2,514,836	2,707,418	906,487
4,680,437	4,738,457	1,298,214
<u>16,604,470</u>	<u>17,621,544</u>	<u>3,874,224</u>
(212,833)	(193,295)	1,582,662
<u>--</u>	<u>--</u>	<u>--</u>
(212,833)	(193,295)	1,582,662
<u>6,551,444</u>	<u>7,494,278</u>	<u>(4,544)</u>
<u>\$ 6,338,611</u>	<u>\$ 7,300,983</u>	<u>\$ 1,578,118</u>

CITY OF GRINNELL, IOWA
NOTES TO OTHER INFORMATION -
BUDGETARY REPORTING

June 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted included disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, Permanent Funds, and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,017,074. The budget amendment is reflected in the final budgeted amount.

SUPPLEMENTARY INFORMATION

CITY OF GRINNELL, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NON-MAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2013

		Special Revenue	
	Road Use	Local Option Sales Tax	Unemployment Reserve
Receipts:			
Other City tax	\$ --	\$ 822,247	\$ --
Use of money and property	--	2,566	203
Intergovernmental	882,770	--	--
Miscellaneous	--	--	--
Total receipts	<u>882,770</u>	<u>824,813</u>	<u>203</u>
Disbursements:			
Operating:			
Public safety	--	--	--
Public works	825,497	--	--
Culture and recreation	--	--	--
Community and economic development	--	363,259	--
General government	--	--	3,398
Total disbursements	<u>825,497</u>	<u>363,259</u>	<u>3,398</u>
Excess (deficiency) of receipts over (under) disbursements	57,273	461,554	(3,195)
Other financing sources (uses):			
Operating transfers in	--	429,861	--
Operating transfers out	(50,000)	(1,082,993)	--
Total other financing sources (uses)	<u>(50,000)</u>	<u>(653,132)</u>	<u>--</u>
Net change in cash balances	7,273	(191,578)	(3,195)
Cash balances beginning of year	<u>500,384</u>	<u>413,486</u>	<u>27,679</u>
Cash balances end of year	<u>\$ 507,657</u>	<u>\$ 221,908</u>	<u>\$ 24,484</u>
Cash Basis Fund Balances			
Nonspendable - Cemetery perpetual care	\$ --	\$ --	\$ --
Restricted for:			
Streets	507,657	--	--
Other purposes	<u>--</u>	<u>221,908</u>	<u>24,484</u>
Total cash basis fund balances	<u>\$ 507,657</u>	<u>\$ 221,908</u>	<u>\$ 24,484</u>

(continued next page)

Special Revenue			
Insurance Deductible	Insurance Reserve	Insurance Escrow	Hotel Motel Tax
\$ --	\$ --	\$ --	\$ 299,187
617	485	--	1,518
--	--	--	--
--	7,011	--	2,290
<u>617</u>	<u>7,496</u>	<u>--</u>	<u>302,995</u>
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	134,292
--	9,169	--	--
<u>--</u>	<u>9,169</u>	<u>--</u>	<u>134,292</u>
617	(1,673)	--	168,703
--	--	--	10,000
<u>--</u>	<u>--</u>	<u>--</u>	<u>(157,500)</u>
--	--	--	(147,500)
617	(1,673)	--	21,203
<u>68,324</u>	<u>55,135</u>	<u>9,790</u>	<u>143,166</u>
<u>\$ 68,941</u>	<u>\$ 53,462</u>	<u>\$ 9,790</u>	<u>\$ 164,369</u>
\$ --	\$ --	\$ --	\$ --
--	--	--	--
<u>68,941</u>	<u>53,462</u>	<u>9,790</u>	<u>164,369</u>
<u>\$ 68,941</u>	<u>\$ 53,462</u>	<u>\$ 9,790</u>	<u>\$ 164,369</u>

CITY OF GRINNELL, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NON-MAJOR GOVERNMENTAL FUNDS - Continued

As of and for the year ended June 30, 2013

	<u>Special Revenue</u>		<u>Permanent</u>
	<u>Library</u>	<u>Police</u>	<u>Cemetery</u>
	<u>Gifts</u>	<u>Forfeiture</u>	<u>Perpetual Care</u>
Receipts:			
Other City tax	\$ --	\$ --	\$ --
Use of money and property	278	28	--
Intergovernmental	500	--	--
Miscellaneous	<u>24,341</u>	<u>--</u>	<u>3,610</u>
Total receipts	25,119	28	3,610
Disbursements:			
Operating:			
Public safety	--	6,415	--
Public works	--	--	--
Culture and recreation	17,371	--	--
Community and economic development	--	--	--
General government	<u>--</u>	<u>--</u>	<u>--</u>
Total disbursements	<u>17,371</u>	<u>6,415</u>	<u>--</u>
Excess (deficiency) of receipts over (under) disbursements	7,748	(6,387)	3,610
Other financing sources (uses):			
Operating transfers in	--	--	--
Operating transfers out	<u>--</u>	<u>--</u>	<u>--</u>
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net change in cash balances	7,748	(6,387)	3,610
Cash balances beginning of year	<u>36,328</u>	<u>6,387</u>	<u>497,992</u>
Cash balances end of year	<u>\$ 44,076</u>	<u>\$ --</u>	<u>\$ 501,602</u>
Cash Basis Fund Balances			
Nonspendable - Cemetery perpetual care	\$ --	\$ --	\$ 501,602
Restricted for:			
Streets	--	--	--
Other purposes	<u>44,076</u>	<u>--</u>	<u>--</u>
Total cash basis fund balances	<u>\$ 44,076</u>	<u>\$ --</u>	<u>\$ 501,602</u>

See accompanying independent auditor's report.

<u>Permanent Cemetery Trees</u>	<u>Total</u>
\$ --	\$ 1,121,434
--	5,695
--	883,270
<u>620</u>	<u>37,872</u>
620	2,048,271
--	6,415
--	825,497
--	17,371
--	497,551
--	<u>12,567</u>
<u>--</u>	<u>1,359,401</u>
620	688,870
--	439,861
<u>--</u>	<u>(1,290,493)</u>
<u>--</u>	<u>(850,632)</u>
620	(161,762)
<u>2,390</u>	<u>1,761,061</u>
<u>\$ 3,010</u>	<u>\$ 1,599,299</u>
\$ 3,010	\$ 504,612
--	507,657
<u>--</u>	<u>587,030</u>
<u>\$ 3,010</u>	<u>\$ 1,599,299</u>

CITY OF GRINNELL, IOWA
SCHEDULE OF INDEBTEDNESS
Year ended June 30, 2013

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Notes and Bonds:			
2006 B Capital Loan Note	May 15, 2006	6.50%	\$ 108,755
2007 Urban Renewal Bonds	June 1, 2007	3.70-3.85%	3,500,000
2008 Refunding Capital Loan Notes	April 1, 2008	4.40%	200,000
2008 Local Option Sales Tax Bonds	May 1, 2008	3.75 - 4.00%	6,500,000
2009 Local Option Sales Tax Bonds	February 1, 2009	2.40 - 3.80%	3,700,000
2009 Urban Renewal Refunding Bonds	October 1, 2009	2.25 - 4.45%	1,900,000
2010 Urban Renewal Refunding Bonds	April 1, 2010	1.00 - 1.80%	2,315,000
2011 Urban Renewal Refunding Bonds	December 1, 2011	.5 - 1.45%	2,765,000
Total General Obligation Notes and Bonds			
Revenue Notes:			
2009 Water Revenue Capital Loan Note Series A	July 1, 2009	3.00%	500,000
2009 Sewer Revenue Capital Loan Note Series B	July 1, 2009	2.75 - 3.00%	2,210,000
Total Revenue Notes			

See accompanying independent auditor's report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 51,834	\$ --	\$ 11,761	\$ 40,073	\$ 3,369	\$ 214
200,000	--	200,000	--	108,700	--
200,000	--	35,000	165,000	8,800	597
6,500,000	--	--	6,500,000	252,125	21,010
2,815,000	--	475,000	2,340,000	91,880	6,548
1,700,000	--	105,000	1,595,000	57,488	4,572
1,415,000	--	455,000	960,000	21,087	1,321
<u>2,765,000</u>	<u>--</u>	<u>--</u>	<u>2,765,000</u>	<u>--</u>	<u>--</u>
<u>\$15,646,834</u>	<u>\$ --</u>	<u>\$1,281,761</u>	<u>\$ 14,365,073</u>	<u>\$ 543,449</u>	<u>\$ 34,262</u>
\$ 315,000	\$ --	\$ 100,000	\$ 215,000	\$ 9,450	\$ 538
<u>1,080,000</u>	<u>--</u>	<u>425,000</u>	<u>655,000</u>	<u>30,250</u>	<u>1,547</u>
<u>\$ 1,395,000</u>	<u>\$ --</u>	<u>\$ 525,000</u>	<u>\$ 870,000</u>	<u>\$ 39,700</u>	<u>\$ 2,085</u>

CITY OF GRINNELL, IOWA
BOND AND NOTE MATURITIES
June 30, 2013

General Obligation Bonds and Notes						
Year ending June 30,	2006 B Capital Loan Note		2008 Local Option Sales Tax Bonds		2008 Refunding Capital Loan Notes	
	Issued May 15, 2006		Issued May 1, 2008		Issued April 1, 2008	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2014	6.50%	\$ 12,526	-- %	\$ --	4.40%	\$ 25,000
2015	6.50	13,340	--	--	4.40	25,000
2016	6.50	14,207	--	--	4.40	65,000
2017			--	--	4.40	25,000
2018			3.75	340,000	4.40	25,000
2019			3.75	570,000		
2020			3.75	595,000		
2021			3.75	625,000		
2022			3.88	650,000		
2023			3.88	680,000		
2024			3.88	710,000		
2025			4.00	745,000		
2026			4.00	775,000		
2027			4.00	810,000		
2028						
2029						
		<u>\$ 40,073</u>		<u>\$6,500,000</u>		<u>\$ 165,000</u>

Year ending June 30,	Revenue Notes				
	2009 Sewer Revenue		2009 Water Revenue		Total
	Capital Loan Note		Capital Loan Note		
	Issued July 1, 2009		Issued July 1, 2009		
	Interest		Interest		
Rates	Amount	Rates	Amount		
2014	2.75%	\$ 435,000	3.00%	\$ 105,000	\$ 540,000
2015	3.00	<u>220,000</u>	3.00	<u>110,000</u>	<u>330,000</u>
		<u>\$ 655,000</u>		<u>\$ 215,000</u>	<u>\$ 870,000</u>

See accompanying independent auditor's report.

General Obligation Bonds and Notes								
2009 Local Option Sales Tax Bonds		2009 Urban Renewal Bonds		2010 Urban Renewal Bonds		2011 Urban Renewal Bonds		
Issued February 1, 2009		Issued October 1, 2009		Issued April 1, 2010		Issued December 1, 2011		
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rate	Amount	Total
3.00%	\$ 495,000	2.50%	\$ 110,000	1.50%	\$ 475,000	0.50%	\$ 240,000	\$ 1,357,526
3.20	515,000	2.50	120,000	1.80	485,000	0.70	215,000	1,373,340
3.40	540,000	2.50	120,000			0.90	710,000	1,449,207
3.60	565,000	3.00	130,000			1.20	790,000	1,510,000
3.80	225,000	3.00	135,000			1.45	810,000	1,535,000
		3.00	140,000					710,000
		3.20	145,000					740,000
		--	--					625,000
		--	--					650,000
		4.00	200,000					880,000
		--	--					710,000
		4.20	150,000					895,000
		--	--					775,000
		4.25	165,000					975,000
		--	--					--
		4.45	180,000					180,000
	<u>\$2,340,000</u>		<u>\$1,595,000</u>		<u>\$ 960,000</u>		<u>\$2,765,000</u>	<u>\$ 14,365,073</u>

CITY OF GRINNELL, IOWA
SCHEDULE OF RECEIPTS BY SOURCE AND
DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
For the Last Nine Years

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Receipts:			
Property tax	\$ 3,699,917	\$ 3,721,305	\$ 3,603,350
Tax increment financing	1,725,321	1,403,920	1,512,596
Other city tax	1,187,763	1,411,015	1,154,105
Licenses and permits	70,729	78,285	70,828
Use of money and property	213,365	172,776	202,269
Intergovernmental	1,793,317	3,085,054	2,868,686
Charges for service	441,162	478,716	525,196
Special assessments	--	5,612	--
Miscellaneous	<u>1,729,822</u>	<u>2,625,965</u>	<u>3,025,026</u>
Total	<u>\$ 10,861,396</u>	<u>\$ 12,982,648</u>	<u>\$ 12,962,056</u>
Disbursements:			
Operating:			
Public safety	\$ 1,721,070	\$ 1,983,835	\$ 1,907,607
Public works	1,276,745	1,260,714	1,117,766
Health and social services	1,620	898	972
Culture and recreation	1,080,732	1,054,957	1,124,820
Community and economic development	1,232,641	811,409	791,112
General government	1,365,377	1,192,906	1,107,407
Debt service	1,827,961	4,405,315	1,737,290
Capital projects	<u>1,800,931</u>	<u>4,934,388</u>	<u>5,177,493</u>
Total	<u>\$ 10,307,077</u>	<u>\$ 15,644,422</u>	<u>\$ 12,964,467</u>

See accompanying independent auditor's report.

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 3,452,308	\$ 3,366,606	\$ 3,087,015	\$ 2,999,391	\$ 3,056,035	\$ 3,070,756
1,376,451	1,126,535	922,033	868,911	503,377	495,897
1,128,032	1,131,921	1,386,718	8,125	70,911	61,123
73,202	70,469	60,571	3,619	14,309	19,090
293,896	326,197	249,572	207,611	123,410	110,910
2,447,855	2,249,586	2,167,720	1,764,014	2,864,425	1,053,762
307,633	196,393	468,998	189,815	221,497	258,076
--	--	848	6,629	15,039	2,133
<u>1,682,009</u>	<u>3,568,962</u>	<u>629,659</u>	<u>2,603,867</u>	<u>1,290,592</u>	<u>1,417,407</u>
<u>\$ 10,761,386</u>	<u>\$ 12,036,669</u>	<u>\$ 8,973,134</u>	<u>\$ 8,651,982</u>	<u>\$ 8,159,595</u>	<u>\$ 6,489,154</u>
\$ 1,716,902	\$ 1,597,813	\$ 1,595,471	\$ 1,813,974	\$ 1,768,132	\$ 1,632,680
1,187,834	1,009,404	1,625,587	1,722,727	778,029	676,135
11,285	--	--	--	--	--
1,042,095	946,258	826,726	1,084,280	876,011	767,961
884,813	924,032	1,064,758	1,874,595	974,415	667,509
1,044,360	1,029,102	1,004,039	962,178	1,037,363	904,880
3,417,738	940,726	509,432	356,601	696,402	949,402
<u>11,310,062</u>	<u>11,624,953</u>	<u>5,434,166</u>	<u>2,302,993</u>	<u>6,303,046</u>	<u>2,065,574</u>
<u>\$ 20,615,089</u>	<u>\$ 18,072,288</u>	<u>\$ 12,060,179</u>	<u>\$ 10,117,348</u>	<u>\$ 12,433,398</u>	<u>\$ 7,664,141</u>

CITY OF GRINNELL, IOWA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2013

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Program Expenditures</u>
Direct:			
U.S. Department of Justice:			
ARRA - Edward Byrne Memorial Justice Assistance Grant Program/Grants to Units of Local Government	16.804	2009-SB-B9-0668	\$ 10,487
U.S. Department of Transportation:			
ARRA - Federal Aviation Administration:			
Airport Improvement Program	20.106	3-19-0039-09	33,345
Airport Improvement Program	20.106	3-19-0039-11	259,348
			<u>292,693</u>
Federal Aviation Administration			
Airport Improvement Program	20.106	3-19-0039-10	6,151
			<u>6,151</u>
Total direct			309,331
Indirect:			
U.S. Department of Justice:			
Iowa Department of Justice:			
Polk County Sheriff's Office:			
Edward Byrne Memorial Justice Assistance Grant Program/Grants to States and Territories	16.803	N/A	10,456
U.S. Department of Transportation:			
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	12-03, Task 168	4,469
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	EDP-3127(616)-7Y-79	154,546
Highway Planning and Construction	20.205	HDP-146-2(32)-71-79	43,721
			<u>198,267</u>

(continued next page)

CITY OF GRINNELL, IOWA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

Year ended June 30, 2013

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Program Expenditures</u>
Indirect (continued):			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant Program	14.228	11-HSG-021	\$ 197,072
Total indirect			<u>410,264</u>
			<u>\$ 719,595</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Grinnell and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation, of the basic financial statements.

See accompanying independent auditor's report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grinnell, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 26, 2013. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Grinnell's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Grinnell's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Grinnell's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Grinnell's financial statements will not be prevented or detected and corrected on a timely basis.

To the Honorable Mayor and
Members of the City Council

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item 13-II-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Grinnell's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Responses to Findings

The City of Grinnell's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Grinnell's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Grinnell, Ben, Kuhn & Co. P. C.

Atlantic, Iowa
December 26, 2013

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Compliance
for Each Major Federal Program, on Internal Control over Compliance
and on the Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133

To the Honorable Mayor and
Members of the City Council

Report on Compliance for Each Major Federal Program

We have audited the City of Grinnell, Iowa's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Grinnell's major federal program for the year ended June 30, 2013. The City of Grinnell's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Grinnell's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Grinnell's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Grinnell's compliance.

To the Honorable Mayor and
Members of the City Council

Opinion on Each Major Federal Program

In our opinion, the City of Grinnell complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of the City of Grinnell is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Grinnell's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Grinnell's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct non-compliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis.

The City of Grinnell's response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings and Questioned Costs. The City of Grinnell's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Garnetwell, Ben, Kuhn & Co. P.C.

Atlantic, Iowa
December 26, 2013

CITY OF GRINNELL, IOWA
Schedule Of Findings And Questioned Costs
Year ended June 30, 2013

PART I: Summary of the Independent Auditor's Results

Financial Statements

- (a) Type of auditor's report issued:
- Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Internal control over financial reporting:
- Material weakness(es) identified? yes X no
 - Significant deficiency(ies) identified? X yes none reported
- (c) Noncompliance material to financial statements noted? yes X no

Federal Awards

- (d) Internal control over major program:
- Material weakness(es) identified? yes X no
 - Significant deficiency(ies) identified? X yes none reported
- (e) Type of auditor's report issued on compliance for major program:
- Unqualified.
- (f) Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of the OMB Circular A-133? yes X no
- (g) Identification of major program:
- CFDA Number 20.106 - Federal Aviation Administration
- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.
- (i) Auditor qualify as low-risk auditee? yes X no

CITY OF GRINNELL, IOWA
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

PART II: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES:

- 13-II-A Segregation of Duties: One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. However, because there are a limited number of people that have the primary responsibility for the accounting and financial duties, those aspects of internal accounting control which rely upon an adequate segregation of duties are missing in the City.

Recommendation: We recommend that the City review its control procedures to obtain the maximum internal control possible under the circumstances and the Council be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: We will continue work in this area to increase segregation of duties.

Conclusion: Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF GRINNELL, IOWA
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

PART III: Findings and Questioned Costs For Federal Awards

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 20.106: Federal Aviation Administration
Contract Numbers: 3-19-0039-09; 3-19-0039-10; 3-19-0039-11
Federal Award Years: 2009-2011
U.S. Department of Transportation

- 13-III-A Segregation of Duties over Federal Programs: The City did not properly segregate all accounting and financial reporting duties, including those related to federal programs. See item 13-II-A.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

PART IV: Other Findings Related to Statutory Reporting

- 13-IV-A Certified Budget: Disbursements during the year ended June 30, 2013 did not exceed the amounts budgeted.
- 13-IV-B Questionable Disbursements: During the audit, we did not note any disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 13-IV-C Travel Expense: No expenditures of City money for travel expenses of spouses of City officials and/or employees were noted.
- 13-IV-D Business Transactions: In accordance with Chapter 362.5 of the Code of Iowa, no transactions between the City and the City officials and City employees were noted that represented conflicts of interest.
- 13-IV-E Bond Coverage: Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 13-IV-F Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.
- 13-IV-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa.

CITY OF GRINNELL, IOWA
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

PART IV: Other Findings Related to Statutory Reporting - Continued

13-IV-H Revenue Bonds: No instances of non-compliance with the revenue bond resolutions were noted.

13-IV-I Urban Renewal Annual Report: The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

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